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From "Karen Seto" <[REDACTED]>
Cc
Bcc
Received Date 2006-06-27 05 42 46 CST
Subject good press (tube & nbc - wsj article)

great press on your recent deal with nbc!)

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With NBC Pact, YouTube Site Tries to Build a Lasting Business

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Internet Video Service Sketches

A Path to Profitability;
Difficult Copyright Issues

Receiving 60,000 Clips a Day

By KEVIN J. DELANEY
June 27, 2006; Page A1

Over the past decade, large media and tech companies have tried to build mass-market services offering video over the Internet. Someone has finally succeeded big: a startup with 35 employees and an office over a pizza restaurant.

Through YouTube Inc.'s Web service, consumers view short videos more than 70 million times a day, ranging from clips of unicycling jugglers and aspiring musicians to vintage Bugs Bunny cartoons and World Cup soccer highlights recorded from TV. Users post more than 60,000 videos daily, with a limit of 10 minutes for most clips.

The big question for YouTube now: Can it turn this loose bazaar of videos into an enduring business?

It will take a step in that direction today when it gets a big endorsement from General Electric Co.'s NBC Universal. NBC plans to announce that it will make available on YouTube promotional video clips for some of its popular shows, such as "The Office," "Saturday Night Live" and "The Tonight Show with Jay Leno." NBC plans to market its new fall lineup using clips on YouTube, and is holding a contest for consumers to submit their own promotional videos for "The Office." It will also buy ads on the site and promote YouTube with mentions on television. That's a significant step for NBC, which earlier had demanded that YouTube take down clips of its programming. (Time Warner Inc.'s Warner Bros. has made a deal to distribute movies and TV shows via Guba.com.)



YouTube is a classic

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Dow Jones, Reuters

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	CHANGE	0.24
		6/26
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	CHANGE	-0.11
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Steve Chen

Silicon Valley garage-to-glory tale. Two friends, Chad Hurley and Steve Chen, started a company in a garage to tackle an issue they were grappling with personally: how to share home videos online. They maxed out Mr. Chen's credit card on business expenses before a financier bankrolled them. They built, following under the noses of richer, better-known comp-

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But for every Apple Computer Inc. or Google Inc., Silicon Valley's history is filled with startups that gained 15 minutes of fame but couldn't sustain their brief success. Executives, including some alumni of Internet flameouts, are now furiously planning deals to sustain their upward arc.

YouTube's 29-year-old chief executive, Mr. Hurley, and its 27-year-old chief technology officer, Mr. Chen, see two big challenges. The first is to figure out how to make money. The second addresses concerns of copyright holders that many of their TV and movie clips, music videos and songs are available through YouTube without permission.



Chad Hurley

Messrs. Hurley and Chen, who worked together at eBay's electronic-payment unit, are trying to tackle both issues. They're quietly building an online-ad system with Google, which they intend to use to entice producers to post their videos on YouTube. When the system rolls out later this year, YouTube will generate revenue from ads that appear alongside some videos with those videos. Messrs. Hurley and Chen hope that Hollywood will see YouTube much as it now views network TV: a legit distributor of content with revenue and promotional payoff.

With stepped-up ad sales, YouTube could become a bigger target for lawsuits. While much of its content consists of home-snapshots, say the most-viewed items often involve some type of copyright infringement. On a recent day, top-viewed videos included "Today" and "The Daily Show," a shaky "Radiohead" concert video and World Cup highlights recorded from TV.

YouTube says it removes clips when content owners request it, under a procedure established by the Digital Millennium Copyright Act of 1998. In some cases, copyright owners succeed in getting YouTube to put the clips on its site themselves in order to generate buzz or to test ideas.

NBC has been among the media companies most actively requesting YouTube to remove clips that users have uploaded without permission. With today's agreement, NBC will show its shows to YouTube's audience while getting assurances that material it doesn't want to be removed. "YouTube has done their work on protecting copyright and we have them to thank for that," says NBC Universal Television Group Chief John Miller. "They are a bright light, they have a lot of traffic," he adds.

Based in San Mateo, Calif., YouTube got its start in February 2005, after a dinner between Mr. Hurley, who studied design in college and sports shoulder-length hair, and Mr. Chen, a Taiwan-born engineer with small hoops in each ear. They took videos of the part that was most frustrating when they tried to share the footage with friends. They set out to build a website that would let them do just that. At the time, Mr. Chen was still working at PayPal, who had designed PayPal's current logo during his 1999 job interview there, while working on his own project.

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They set up shop in Mr. Hurley's Menlo Park garage. In May 2005, they released the site on the Web with no marketing. Early videos available prominently featured PJ.

Building a Following

The site quickly built up a following. It stood out from the growing corps of sites including an offering from Google, for its simplicity. YouTube serves up videos directly or from other sites where people insert them, generally not requiring use of special software. To accomplish this technical feat, YouTube drew on open-source code. The service can handle about 110 video formats and 64 audio digital photo and video cameras and cellphones.

It also let consumers display its videos on other sites, such as blogs or personal Corp.'s popular MySpace social networking service. Users could easily upload their links to YouTube videos to each other. The influential techie site Slashdot's mention helped boost traffic.

After seeing Mr. Chen at a party last summer, former PayPal Chief Financial Officer put some clips from his honeymoon in Italy on the site. Now a partner at venture Sequoia Capital -- known for backing Apple, Cisco, Google and Yahoo, among others -- invited the YouTube co-founders to his office in mid-August. Mr. Botha says the site shares a key attribute with some of those tech legends: "building something that winds up being universally useful."

By September, users were viewing YouTube videos more than a million times a day. In strategy with Mr. Botha in October, the YouTube founders still believed their main opportunity involved individuals sharing home videos. The next month, they announced they had injected \$3.5 million to help finance the company.

But it started becoming clear to YouTube that users were sharing more than just home videos and viewership stretched far beyond circles of friends. By the time of the site's launch on Dec. 15, consumers were viewing YouTube videos more than three million times a day. A few days later, someone posted to YouTube a skit from NBC's "Saturday Night Live" dubbed "Lazy Sunday," featuring two grown men rapping about cupcakes, red licorice and the "The Chronicles of Narnia" film.

After it turned up among user favorites on the site, Mr. Hurley emailed NBC. He asked whether NBC had provided the clip itself, and volunteered to remove it from YouTube if the video had been shared without NBC's permission. The NBC staff didn't know the answer, but would look into it, Mr. Hurley says.

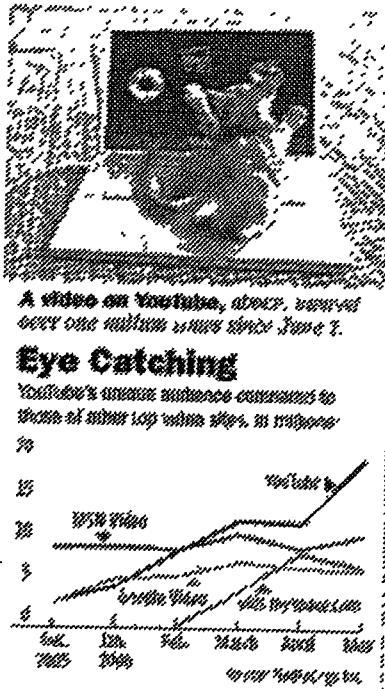
Consumers viewed "Lazy Sunday" six million times before NBC on Feb. 3 contacted YouTube to request that it be removed, along with hundreds of other clips including Jay Leno's video from the Winter Olympics.

Run-In With MySpace

YouTube's rising popularity led to run-ins with others. In December, MySpace began playing YouTube videos on their MySpace pages. Consumer outcry followed and MySpace deactivated the YouTube feature again. A News Corp. executive later said MySpace had reactivated the YouTube videos contained porn, and only reactivated them once YouTube had assurances about porn filtering. (YouTube says it removes any pornography after it is uploaded.) Shortly after the incident, MySpace released its own video service to compete with YouTube.

As YouTube users began complaining that the system was slowing, the company responded by upgrading its technology. In January, it began displaying limited advertising to help offset its costs of computer equipment and telecom lines. Mr. Chen predicts YouTube will open offices with computers to run its service each month this year.

Thanks partly to its use on MySpace and the Saturday Night Live clip, YouTube cultural phenomenon. Amateur video enthusiasts created their own video tributes that they titled "Lazy Monday" and "Lazy Muncie." Videos of young people, mostly students, hamming it up in front of Webcams while lip synching to popular songs millions of times.



trouble" if it did what YouTube has. But he also acknowledged spending time on a bunch of old Harlem Globetrotters movies up there the other night, it's great," he said.

Google and other YouTube competitors also stepped up their games. Google simplified its video-upload interface to match what YouTube had been offering. Yahoo this month launched a video service to allow consumers to submit videos directly to it, competing more closely with YouTube.

Rumors have circulated in recent months that some major media companies have been looking into buying YouTube. In response, Mr. Hurley says the company is not for sale. A public offering in the future is a possibility.

The YouTube co-founders decline to provide many specific details of the ad system, which they say will gradually begin rolling out next month. But they say they're not fond of commercials before a user can watch a video, known in the industry as "prerolls." YouTube recently hired sales executive Tony Nethercutt to build its sales team.

Submission by Cellphone

Consumers can now submit videos from their mobile phones, and Messrs. Chen and Parker say they one day should be able to view YouTube clips on phones and other devices. They hope to potentially expand beyond video to audio and other content.

For now, YouTube remains by far the most-visited video site on the Web. It attracted 11.1 million U.S. users in May, compared with 11.1 million for Microsoft's MSN Video, seven million for both MySpace's video site and Google Video, according to research firm NetRatings Inc. YouTube says behavior indicates that users are most interested in

Along the way, the entertainment world has been watching how it might benefit from YouTube's audience. Weinstein Co., a movie company run by Harvey Weinstein, in April premiered the first trailer of the film "Lucky Number Slevin" on YouTube. Paramount Vantage movie unit has exclusively on YouTube an 83-second ad for the movie. By midday yesterday, it had been viewed 1.5 million times. "As a marketer you almost can't find a better place to promote your movie," said Michael Lippman, vice president for interactive marketing at Paramount. Viacom owns YouTube rival AOL.

Still, there were bumps. C-SPAN asked YouTube to take down popular clips of an appearance by satirist Stephen Colbert at the White House Correspondents' Association dinner in April. YouTube distributed the clips free through Google.

Some top tech and entertainment executives have expressed admiration for the company -- while others have shown clear reservations. Microsoft Corp. Chairman Steve Ballmer told attendees of The Wall Street Journal's annual conference that, given the copyright issues, it's not clear path to profitability, his company's position is that YouTube is not for sale.

three minutes or shorter.

"We're at the fork in the road where Google was at maybe four or five years ago before they rolled out" their current ad model, says Mr. Chen.

A big question is whether more advertising and promotions will drive away some users who like the site's edgy feeling. Consumers spoke up earlier this year when YouTube's home page began to highlight in yellow links to videos from official content partners, questioning the preferential treatment. In response, YouTube quickly removed the yellow highlighting from the page.

Write to Kevin J. Delaney at kevin.delaney@wsj.com



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